DOW THEORY LETTERS INC.

RICHARD RUSSELL
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Depression Won't Occur In U.S., Ford Asserts

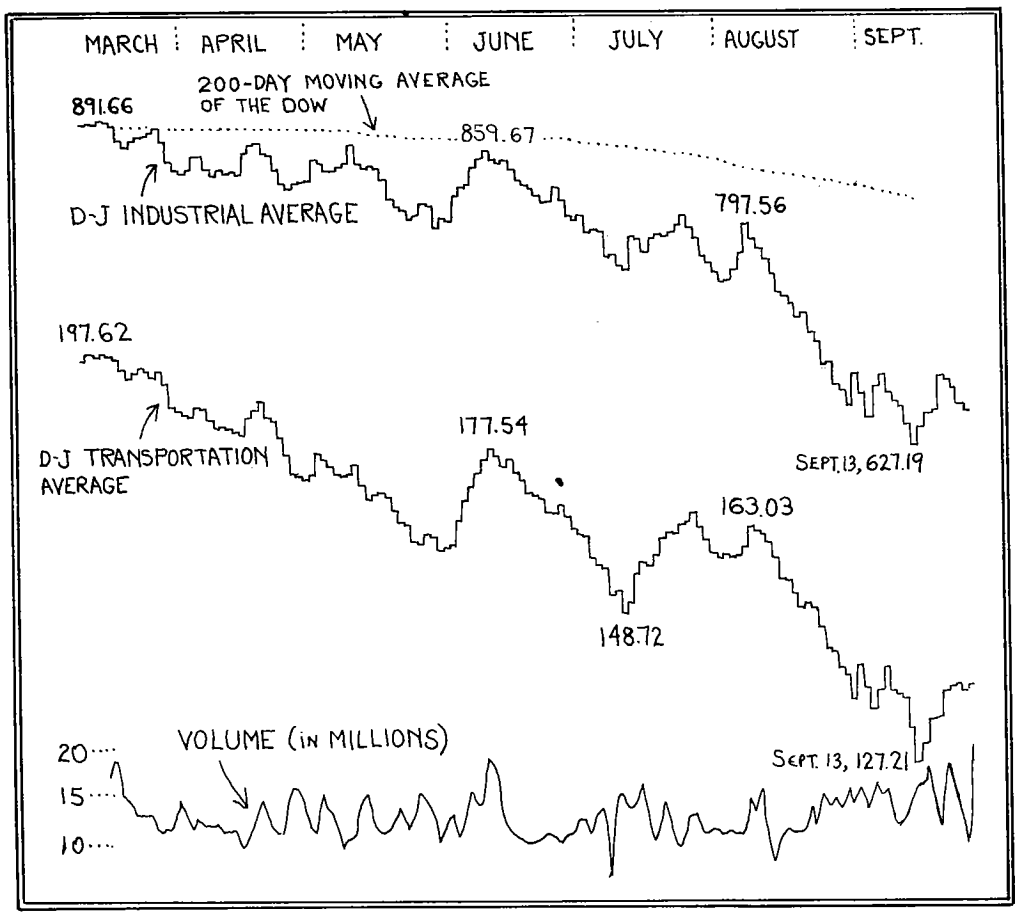
By a WALL STREET JOURNAL *Staff Reporter*

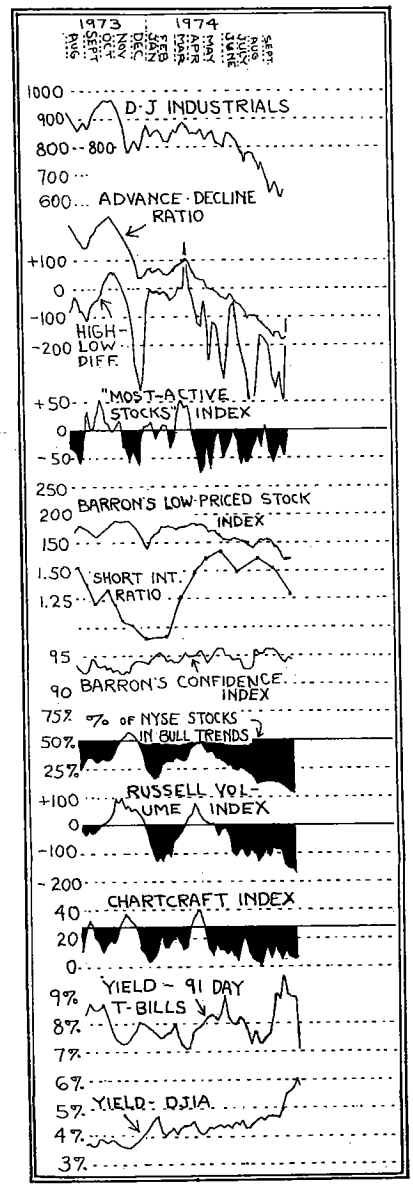
WASHINGTON — Insisting that the nation's economy continues strong, President Ford last night asserted the U.S. "isn't going to have a depression."

WASHINGTON (UPI) — Treasury Secretary William Simon said yesterday the United States will escape a depression, and those who predict economic disaster are making the fight against inflation more difficult.

OPENING COMMENT: For weeks now the investment world has been primed for an easing of the money situation or at least a step-down in the interest rate structure. As so often happens, the event occurred (as T-bill yields dropped last week under 7%), and the market seemed to have discounted the good news already. More significant, to my mind, was the fact that the D-J 40-Bond Average barely budged off its four-year low of 64.55 while the T-bill yields were dropping. I consider this action strange indeed. A cynic might even say that investors were moving into T-bills for safety while moving out of long-term debt because of fears of the world debt structure. Ah well, things never work the way they are supposed to during a primary bear market.

THE PICTURE: On September 16 President Ford announced (page 1) that there would be no depression in the US. The next day (Sept. 17) Treasury Secretary Simon uncovered his own crystal ball and announced that there would be no depression. These statements were made as the Federal Reserve moved to ease the money situation. Thus, events seem to be moving along the line I have recently outlined. My outline indicated that the money spigots would be opened (because of recession) even while the inflation statistics continued to flare. And flare they did. Last week it was announced that the August wholesale price increase was 3.9% or 46% annualized, a 28 year record. On September 20 we were informed that the consumer price index for August was up 1.3% or a thundering 15.6% annualized.





In the face of these statistics, can the Fed move to boost the money supply substantially? Would they dare? You better believe they would, and they are. In the face of the mid-September "no depression" pronouncements, could Mr. Ford and Mr. Simon reverse themselves? Of course they could, and on September 23 both of these gentlemen warned that world depression is coming if the price of Arab oil is not reduced (Mr. Kissinger also joined the chorus). The Arabs responded by saying that high oil prices are here to stay, and that if anything, oil was headed even higher.

 I have been saying all year that the West's bent for inflation must clash with Arab oil interests. In taking in the greatest ocean of dollars in history for their oil, the Arabs have also been selling their only real assets for a currency which is being ravaged by inflation. What's more , the Arabs are finally realizing this, and they see it as a disaster! The Arabs have warned the West repeatedly about inflation. Now the Arabs are applying the only pressure they have — higher oil prices. The US, in turn, is applying its own brand of pressure — threat of world depression or a "military mistake." It is clear that the "fat is in the fire." The fat is Arab oil, and the fire is the fire of inflation plus the spector of economic collapse. It is this spector which is finally pressing the US and the West to the wall.

From yet another source it is clear that monumental forces are moving onto the financial scene. According to Salomon Brothers' Dr. Henry Kaufman, the total of all types of debt issues coming to market for third quarter, 1974, will be double that for the comparable record 1971 period. Kaufman's 1974 estimate is $24.1 billion. This is an incredible amount of financing, and it is clear that the long-term money markets simply cannot handle it. Thus, more and more debt is being moved into the short-term area. As one wag puts it, "Within a year or so the entire debt of the nation will be 'rolling over' every 90 days!" Thus, we have another built-in pressure for the Fed to "open wide those gates of green."

Mind you, I'm not saying the Fed would be "wrong" to turn on the credit spigots at this time. I don't know at this late stage whether the Fed wants to halt inflation or halt deflation, and I don't think they know either. Nor does the Fed know what will come out of their latest attempts to boost the money supply.

My best guess is that we are moving into an area of monetary inflation (progressive boosts in the money supply), deflation in prices, inventory liquidation (which will put pressure on prices), and a coming severe squeeze on corporate profits. It is the profit squeeze which I believe the market has been discounting in its headlong downward flight of the past few years. With the profit squeeze will come further problems as the financial structure which has been built over the past three decades continues to unwind.

To my mind, the most frightening factor of all is the matter of debt! It is estimated that this nation now has about $2.5 billion of debt (both private and public). Debt, fundamentally, is the outgrowth of a situation wherein one borrows from the future in order to supply current needs or pleasures. But inherent in assuming debt is the concept, "I am going to work harder in the future, save, cut back on spending, so that I can collect or produce the money with which to pay off the debts I have assumed." Do you know anyone who is thinking this way? Neither do I!

So what happens? Declining profits erode the nation's ability even to service the debt (you can forget about paying it off). All of which brings on the panic phase, the liquidation phase — and the final collapse. But there is one way out, aside from bankruptcy and liquidation. That way is the technique of producing "instant capital." The way to do that is by raising the value of your reserves, and the world's ultimate reserve is gold. Thus, as I see it, the long range picture is (1) profit slide, credit insolvency and perhaps a debt moratorium, or (2) a major rise in the price of gold together with hyper-inflation and a new upward leg in the cycle. Take your choice.

Now, there's another area that I want to discuss. People ask, "How can prices possibly come down, how can the price of houses, food, cars, decline?" This is how it works. First the volume of sales declines. Then the slide becomes noticeable (while prices continue to hold), and finally sales come to a virtual halt. In the meantime, a number of forced sales are made at "unusual" price concessions. Then concessions become widespread. Then, new buyers or potential buyers start laughing at the first "asking price," and values topple. Sounds unbelievable, doesn't it? But that's the way Wall Street works (only much more rapidly), and that's the way the rest of the pricing structure will work (except that we might remember that housing today has more margin built into it than Wall Street ever had). The housing industry, I feel, is built on a foundation of quicksand. And construction, we might remember, is the nation's biggest private business.

THE MARKET: Low points were recorded by the D-J Averages on September 13, Industrials at 627.19, Transports at 127.21. A rather violent five-day rally followed. As I have so often said, it is very difficult (and often deceptive) to try to draw conclusions from the first rally following a major decline. Yet, this market has somehow kept the hopes of the bulls fluttering throughout the entire collapse since January, 1973 ("The final bottom is just around the corner"). The advance from the September 13 lows could prove more of the same.

My work still did not show a "sold out" condition for the market at the September lows, but I am not going to be dogmatic and say that we "have to see this or that" before we can get a good recovery. For the record however, the week ending September 20 again failed to produce a climactic plurality of new lows over new highs, the actual figure being a sub-standard minus 796 (remember, I hold that a minus 1200 to minus 1500 would be climactic). Volume at or near the September lows was hardly of "selling climax" variety, but even here it must be said that some major bear legs have ended with a whimper rather than a thud.

Odd lot shorts were nothing to write home about during and near the September lows, but even here I guess I can excuse it by saying that too many analysts are now watching the odd lots for hopeful indications. Finally, the cumulative most-active stock index has been very sluggish on this rally with the daily plurality of most-active gainers over losers rather disappointing.

I have been watching the Primary Trend Index (PTI), which is my own proprietory amalgam of eight critical indicators (the three D-J Averages, Industrials, Transports and Utilities, the D-J 40 Bond Average, S & P 500 Average, the advance-decline ratio, the daily high-lows, the daily most-active stocks). On the rally from the September 13 low to the September 19 high, the Dow gained 47 points (627.19 to 674.05). The PTI during the same 47 point Dow rally gained a total of 14 points or only 1 point on the PTI for each 3.35 points on the Dow. On previous powerful advances, I have seen the PTI gain 1 point for each 1 point in the Dow. Conclusion: the PTI is saying that this rally lacked power.

As this new clip from the Christian Science Monitor suggests, if we don't have at least a correction here it won't be for lack of hoping. Once again I'll drag out my own adage which simply states that "The market will do whatever it has to — to drive the greatest number of investors out of their minds." Does my adage suggest a rally here? Or does it suggest a coming collapse in the already shaky margin situation with a dive by the Dow into the 500's?

End of stock market slide?

By David R. Francis
Business and financial editor of The Christian Science Monitor

Boston
Is the longest and deepest of postwar U.S. stock market slumps over? Have interest rates peaked?

Apparently enough investors believe so to pierce the deep gloom in Wall Street and shove stock prices higher this week. Some advisory services are switching to "buy" recommendations.

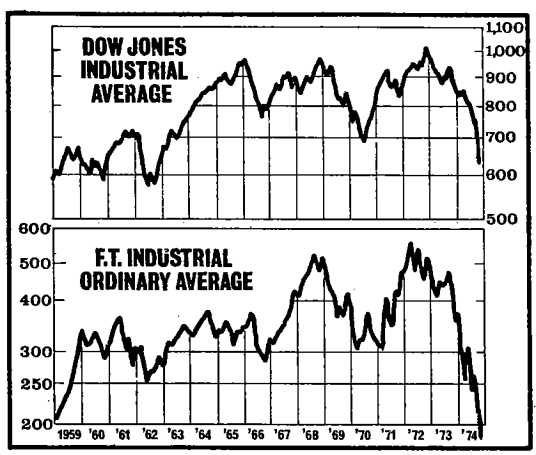
Wright Investors' Service of Bridgeport, Conn., for instance, suggests purchase of "high-grade investment equities up to about an 85 percent invested position."

The primary reason for the new hope is monetary. To a large degree, the investment community these days reckons that stock prices and the economy are heavily influenced by the actions of the Federal Reserve Board.

My own feeling is that from here on the Dow Industrials may actually act worse than the general market. In other words, the Dow might lag on the upside and lead on the downside. For eight years as this bear market has progressed, the Dow has held up while the rest of the market (as gauged by the various unweighted averages) has sunk back to the levels of the 1940's and early '50's.

My experience with markets indicates that ultimately there is an "evening up" process. This means that eventually, during a great bull market, every stock and every stock group blows its top on the upside. Conversely, during a primary bear market all stocks and groups eventually "get in gear" on the downside. By my reckoning, the Dow has alot of catching up to do if it is to get in gear on the downside with the rest of the market. This may sound impossible, outlandish, or even unpatriotic. But the Dow stocks represent not only a good portion of the corpo - rate wealth of this land, but they represent the "sitting ducks," the giant targets which may well be hit as (1) investors sell the blue chips heavily to raise cash in this bear market, and (2) as governments (and I'm talking about the US and I'm talking about foreign governments) hit the big companies for taxes and for various political reasons.

I can't prove it, I can't document it, I can't guarantee it, but I think the coming trend is going to be confiscation of wealth. This is going to occur in the US via taxation of the wealthy, taxation of assets, taxation of big companies, and nationalization of US businesses (on the part of our government and on the part of foreign governments). I see the environment for business (and for individual freedom) deteriorating badly in the period ahead. I think the British market is discounting and reflecting this now in its horrific decline. I think that we will follow. If I'm right, it's going to be a very unfortunate process, and it is going to affect all of us.

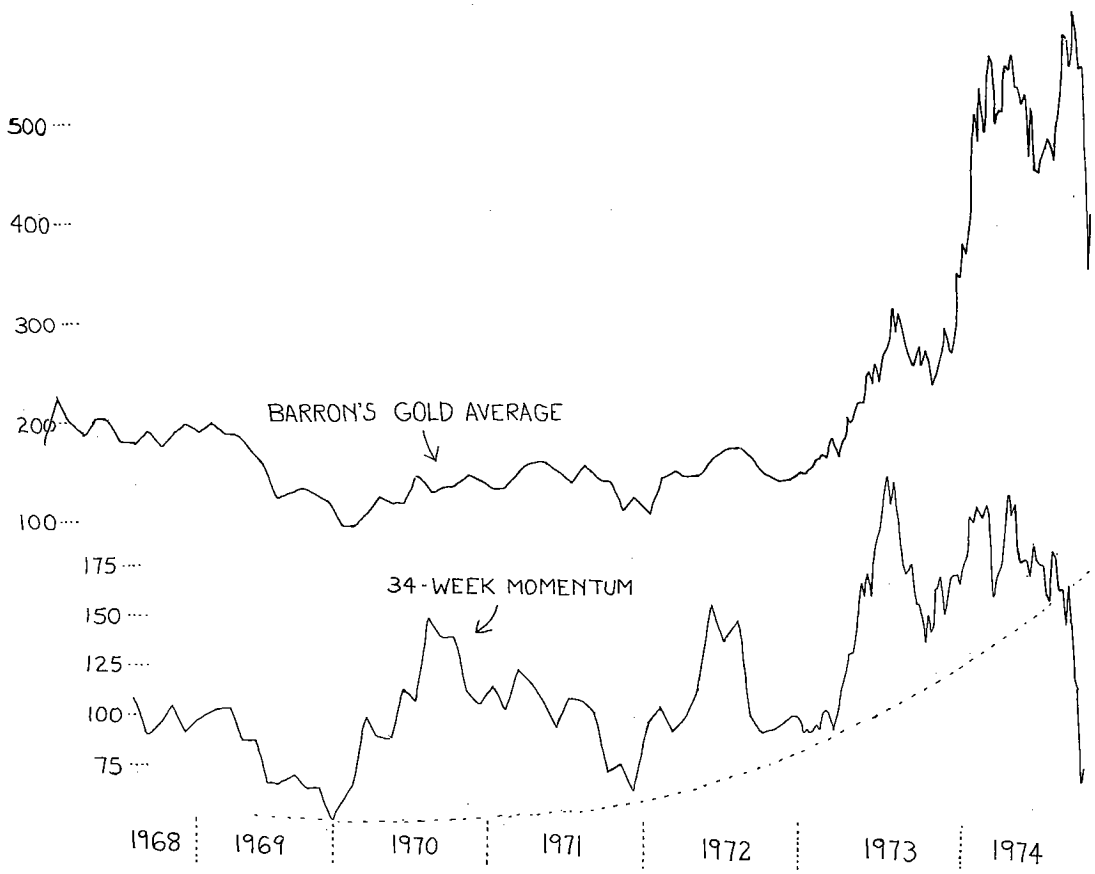


BRITAIN, an "ADVANCE LABORATORY": On September 20 (see chart), the British market broke below its August 19 low of 199.8, thereby sinking to another 18 year low. Whenever a primary low point in a bear market is recorded, one wonders whether the market has at last discounted the worst that lies ahead. When that low holds for a few weeks or longer and is then broken again (as happened last week in Britain), I take it as a most bearish occurrence. It means that the market is looking still further ahead, and it doesn't like what it sees! I have stated in previous Letters (602, 607) that the British market has a habit of leading the way for the US market. Therefore, I take the new 18-year low in London as a bearish indication for Wall Street.

Here is what has been happening to our English-speaking cousins. The British Gross Domestic Product (GDP) will probably be down about 1.5 in 1974, down from its long-term "growth rate" of plus 3% a year. Inflation has been rampant in Britain, and in the last 12 months retail prices have risen 17.1%! Britain has tried to contain inflation through monetary restraints, but unemployment is now rising sharply. On top of this, the British unions have been getting huge raises (train drivers up 30%, refinery workers up 25%). Thus, the British government has been faced with galloping inflation, sliding business, wage boosts, and a $1 billion a month balance-of-payments deficit.

In the face of all this, Britain has turned back to reflating the money supply. Over the past month (on an annualized basis) the money supply has jumped almost 35%. British business now has to face a "house of horrors," consisting of higher taxes, lower sales and rising inventories. Britain also has to contend with the Arabs panicking out of pounds and relocating their funds to "safer lands."

So that's why the London stock average is down from its May 19, 1972, record peak of 543.8 to its last week low of 190, a loss of 65%. For comparison purposes, the British market dropped around 50% during 1929 to 1932. Prognosis: things are worse in Britain now than they were during the Great Depression. It's worth thinking about.



GOLD: I am showing my weekly chart of Barron's Gold Average along with the 34-week momentum index of the Gold Average. The momentum is simply the current price of the Gold Group divided by its price of 34 weeks ago. This gives us a "rate of change" index (actually a ratio) which I call momentum.

A study of the 34-week momentum index is instructive at this time. Note that a low of 70 on momentum was recorded in late-1969, a higher low of 72.5 was recorded in late-1971, and a still-higher bottom of 95 was touched during late-1973 and early-1974. Note also the series of higher peaks in momentum recorded during 1970, 1972 and 1973. The whole appearance of the gold rise on the momentum index was that of a rising "exponential curve" (as shown by the dotted line running through the successive momentum bottoms). The stage appeared to be set for a "blow off" in the gold group, as the price of Barron's Gold Average during late 1974 surged to an all-time high above 600.

The momentum index, however, did not follow through, which means that the rise was subtly losing its "steam." A few weeks ago, as the Barron's Gold Average reversed itself precipitously and plunged to the mid-300's it was already clear that the momentum of the move had broken down and the exponential curve was fractured. What happened? What was the market saying? I think I read as much monetary and gold literature as anyone around; I think I ponder the whole gold and monetary picture about as much as anyone; I certainly discuss the whole scene with some of the best minds around. I must say that as far as the short-term is concerned, it is one of the most difficult and misty pictures I have ever had to deal with, but I want to present some of my thoughts now.

(1) It is possible that the golds, by selling off sharply, are discounting the end of inflation. If deflation comes in, then the argument that "gold and everything else will go through the roof" will not hold water. If deflation is on the horizon, then the rationale for holding gold is that in time the price of gold will be raised substantially as part of a massive world reflation effort, or that gold will go up on its own as people seek to protect themselves against governments which are debasing the currencies via reflation (exactly the case with Britain today via the Krugerrand-buying panic).

(2) The gold bullion market is small and easy to manipulate, and large interests (perhaps the Arabs) are playing for multi-billion dollar stakes. I have said so before, and I will repeat — I find it impossible to believe that the Arabs are not putting a portion of their incoming billions of dollars into gold. I believe the Arabs are open to buy much more gold, but they want it cheap, as cheap as possible. And they have time to wait, to produce rumors, to make deals calculated to knock the price of gold down. This entails gold holders waiting for the price of bullion to rise, maybe waiting a year or so.

(3) Gold coins may be purchased by US citizens now with premiums above gold value running around 10% (more or less). By the end of the year bullion will probably be legal. I feel that the US Government wants to discourage people from buying gold. Huge purchases of gold would be tantamount to "a run on the dollar." I also feel that there is a good chance that the US itself wants to accumulate gold. If so, they want bullion prices to hold at lower levels. This will mean more patient waiting for gold holders.

(4) Costs of running gold mines are rising, and the political and tax hazards to the mines may be rising. However, in view of the risks, many people may prefer to hold the metal rather than shares in the mines. The share prices may be reflecting this.

(5) As declining business trends and investory liquidation tumbles corporate profits, there could well be an even more urgent scramble for cash towards the end of 1974 (cash will be needed to keep many corporations from actually going under, drowning in their own high debt and disappearing profits). If this new cash scramble develops, interest rates could rocket to new record highs. This would put new pressure on holders of gold bullion (which pays no return). This, of course, is only a near-term factor.

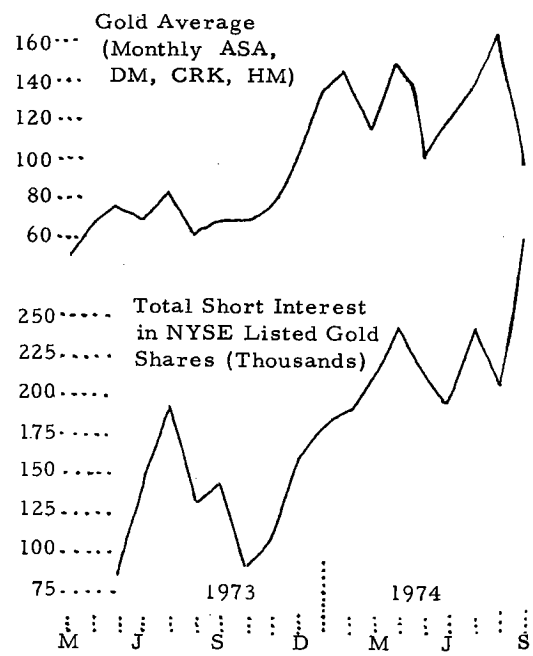
What does it all add up to? My feeling is that the momentum has "said" that the exponential rise, the blow off which appeared to be "set" for late-1974, is either going to be put off into the future or it is not going to materialize.

Where does this leave us? I am including my chart of the short interest in the listed gold shares and the gold average. There is a record short interest in the golds, and I feel that too many people are now betting that the golds are "a sure thing" on the downside. This is a technical plus for the golds. It is also well to remember that the function of the market is to discount, to look ahead. At the recent panic lows, all the negatives in gold may have been discounted or largely discounted. The market has a way of discounting the worst well ahead of the news. During a panic decline, the worst may be discounted in a few days to a week. Perhaps this is the meaning of the recent action in the gold group.

I feel that the gold picture is almost a matter of personal opinion and preference at this time. I believe that all gold positions should range between 25% to 40% of assets now, rather than the 30% to 50% previously advocated. Part of that 25% to 40% should be made up of low premium gold coins (Austrian Coronas, Mexican Pesos). As of January 1, 1975, we will probably be able to own Kruggrands(provided they are available, since there is still a run on them throughout the world).

Some of the brightest men in this field, men like Tom Holt, Edson Gould, Walter Lynch, Jim Dines, are saying that gold should be a part of everyone's portfolio. Harry Schultz says trade the golds, but he likes them here. Other men like Alden Wells are saying "stay out" at this point. I am saying that I believe gold must be put into the system or there won't be a system. But I also follow markets, and the market is saying "foggy" rather than clear. My own guess is that the gold picture is going to take time. The men who run this country and other countries are not going to move until their noses are under water — until they are drowning.

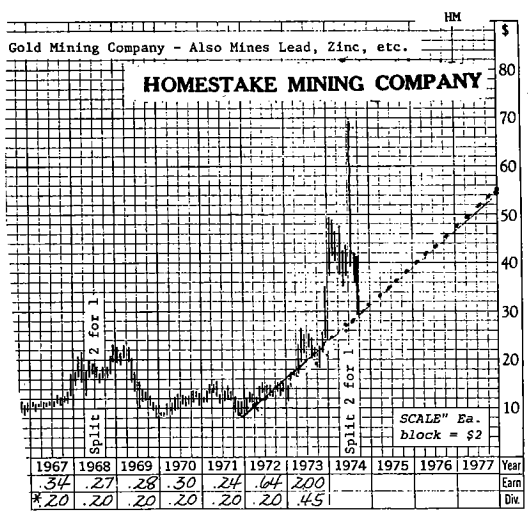
If the economies of the world start collapsing, the politicians will begin searching frantically for a solution. If $300 gold or $1000 gold seems like the secret to reflating, they'll turn to $300 or $1000 gold in a second! How fast the deflation is going to work and how fast governments are going to move towards reflation I do not know. Already, Chairman Burns of the Fed (last week) has announced that "there isn't going to be any money crunch." That's a switch, and the real trouble isn't even here yet! If there isn't going to be a money crunch, then there's going to be a lot of money made available. The reflation gears are now in motion. What happens if corporate profits hit the skids next year (as I fully expect them to) and Government tax receipts collapse? We could see the biggest deficits in our history (already, the word is that Mr. Ford isn't going to be successful in cutting the $305 billion Federal budget).

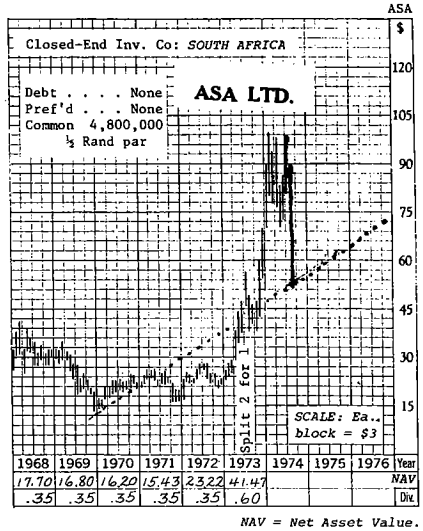


Is the gold momentum chart saying "no explosion in gold" or it is saying "not now but later"? I don't know, and anyone who does is lying in his teeth. But the exponential upward curve for the moment has been broken for the time being. Therefore, my only honest advice to investors is 25% to 40% in gold-related items. This may mean taking some large profits for my older readers, taking some fair losses for my recent readers. But I'll repeat that I don't make the market, and if I did I'd make it one hell of a lot easier to read. I just do my best, and when the market talks, I listen with both ears.

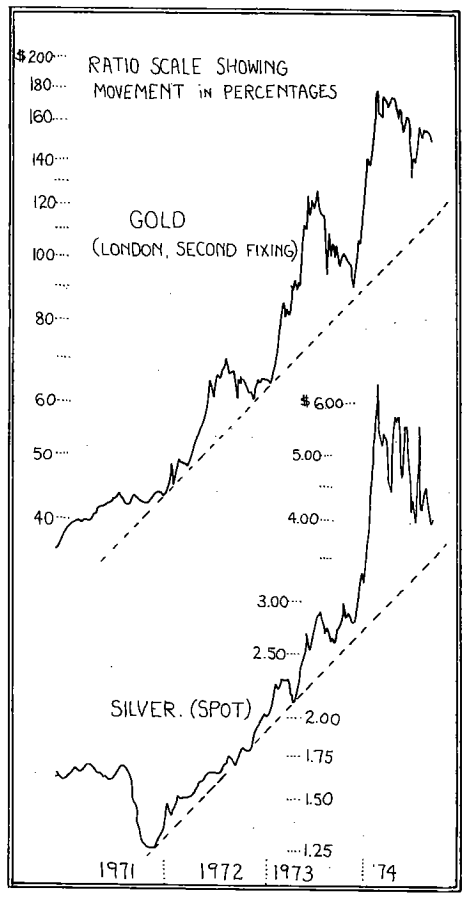
I want to discuss one other technical consideration pertaining to the golds at this time. This is the speed resistance line technique developed by Edson Gould of Anametrics (299 Park Ave., NYC 10017). During the big gold sell-off, the listed golds held above their 1/3 speed resistance (SR lines), and

this is a positive technical consideration for the long-term. It should also be a consideration for anyone who is deciding whether to alter the percentage of gold items in his total portfolio. I am not going to explain the Gould SR line method again, but subscribers can refresh their memories by reviewing Letter 598, page 5 (extra Xerox copies, $2.00). The monthly charts of Homestake and ASA show that on the recent panic declines, the price movement in both these stocks plunged down to, but not below, the 1/3 SR lines (dotted lines on chart), then bounced higher. (Chart of HM, ASA, courtesy of Horsey, Salisbury, MD 21801.)


HM
Gold Mining Company - Also Mines Lead, Zinc, etc.
HOMESTAKE MINING COMPANY
Split 2 for 1
Split 2 for 1
SCALE" Ea. block = $2
1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 Year
.34 .27 .28 .30 .24 .64 2.00 Earn
*.20 .20 .20 .20 .20 .20 .45 Div.


ASA
Closed-End Inv. Co: SOUTH AFRICA
ASA LTD.
Debt . . . . None
Pref'd . . . None
Common 4,800,000
½ Rand par
Split 2 for 1
SCALE: Ea.. block = $3
1968 1969 1970 1971 1972 1973 1974 1975 1976 Year
17.70 16.80 16.20 15.43 23.22 41.47 NAV
.35 .35 .35 .35 .35 .60 Div.
NAV = Net Asset Value.

Make no mistake about it. The technical picture for golds is one of severe damage, and it will take time for these stocks to build new bases. I want to provide subscribers with as much information of both a technical and fundamental nature as I can. There is little to be gained by shoving one's head in the sand and pretending that nothing has happened. It is crucial to examine what has happened and make intelligent moves based on the evidence. On the evidence, I would say that the new gold-holding percentages (25% to 40% in gold shares and gold coins) are now warranted.



I am including my ratio chart of gold and silver (all moves are shown in percentages). Here we see that the two major or primary uptrends remain intact. It would require a dive by silver below $3.50 to crack the silver trendline, while gold will stay bullish as long as it holds above $120.

I am interested in the large number of gold experts who now expect a gold correction into the $120-129 area. The general feeling seems to be that the gold stocks have been discounting a decline in bullion. Personally, I am not at all convinced that gold is going to dive to lower levels from here, and I do not ever remember seeing this many dyed-in-the-wool gold men predicting lower prices before. Therefore, it would not surprise me to see gold stabilize here, then perhaps run up towards the $200 mark by year end as previously forecast. One thing I do feel certain of, however, and that is that "inside information" on gold is 95% hokum, 3% pure wish and 2% out-and-out lies. Maybe we should go back to the favorite adage of that great Dow Theorist of the 1920's, William Hamilton, who said, "Enough inside information will break any man on Wall Street."

Shown on page 7 is my ratio chart of the Dow, the South African Gold Average, the bullion price, and three leading low-premium gold coins. All of these are drawn (monthly) to ratio scale, showing exact percentages of advance or decline. So far, all gold-related items have been moving higher while the D-J Industrial Average (which has far outperformed most non-Dow stocks) has been in a major bear market. I expect both of these trends, with normal interruptions and corrections, to continue.

NOTES AND QUOTES: One thing about a primary bear market — it's democratic. It's out to take everyone. For instance, wouldn't you think that the mighty Ford Foundation could hire the best financial brains available? They probably did, or thought they did. Yet the Foundation has been pulverized by the bear, as witness this amazing news clip (page 7).

You think that's bad? Try this one for size. Here is the record of the private pension funds as far as their investment in common stocks. Many of these funds have been hit very badly with losses of 30% to 60% (and more) of their net assets. To make matters worse, a good number of these funds have not been funded (i.e., the companies did not keep up their annual contributions to the pension plan). In fact, Value Line put together a list of major companies and the amount of money each owed their pension funds and this was also figured (on a per share basis) or as a percentage of average pretax profits. Many companies owed anywhere from 3 to 5 and 10 years' of profits (back-payments) on their pension funds. Value line calls this the "hidden corporate debt." I expect a great deal more about this to come out as the bear market progresses! (Chart page 7)

E. George Schaefer: On Sept. 20 the Dow Jones tape carried the news that E. George Schaefer, the great Dow Theorist from Indianapolis, was dead. He had evidently committed suicide. It was shocking news. I still can't believe it.

George Schaefer was a market genius. He forgot more about the market than most analysts will ever learn or understand. I've been reading Schaefer's reports for two decades. I've corresponded with George for years, and I spoke to him only three weeks ago.

I believe a man commits suicide over his whole life, not any one thing. But any incident may trigger the act. I've been writing that this bear market is a killer. I feel that somehow it contributed towards killing George. As all of my colleagues in this business know, Wall Street gives one no rest. Robert Rhea, the outstanding Dow Theorist of the 1930's, wrote that the market left him "perplexed" about 80% of the time. I have always felt that the very difficult market of 1939 contributed towards Rhea's death. I think the 1974 market contributed towards Schaefer's death.

I guess I wrote alot about personal psychology, and I mention my own brand of facing life and of doing the best one can with God's help. I know that George Schaefer always did the best he could, and most of the time he did better than anyone else in this business could. That was because George had a feeling for the market and the primary trend second to none. George once wrote me to say that "You have to take it easy in this business." He noted that most of the Dow Theorists had died young, and that he wanted to try to live a bit longer than most.

Grants by Ford Foundation to Be Cut Sharply

NEW YORK (AP) — The Ford Foundation, the nation's wealthiest private philanthropic agency, may have to reduce annual grants by as much as 50% because of inflation and a depressed security market, a spokesman said Sunday.

Foundation President McGeorge Bundy said the agency would have to be dissolved by distributing its assets if grants were not reduced.

Seven years ago, Ford's trustees rejected a proposal for dissolution.

The foundation's assets have dropped from $3 billion to $2 billion in market value during the last year, the spokesman said.

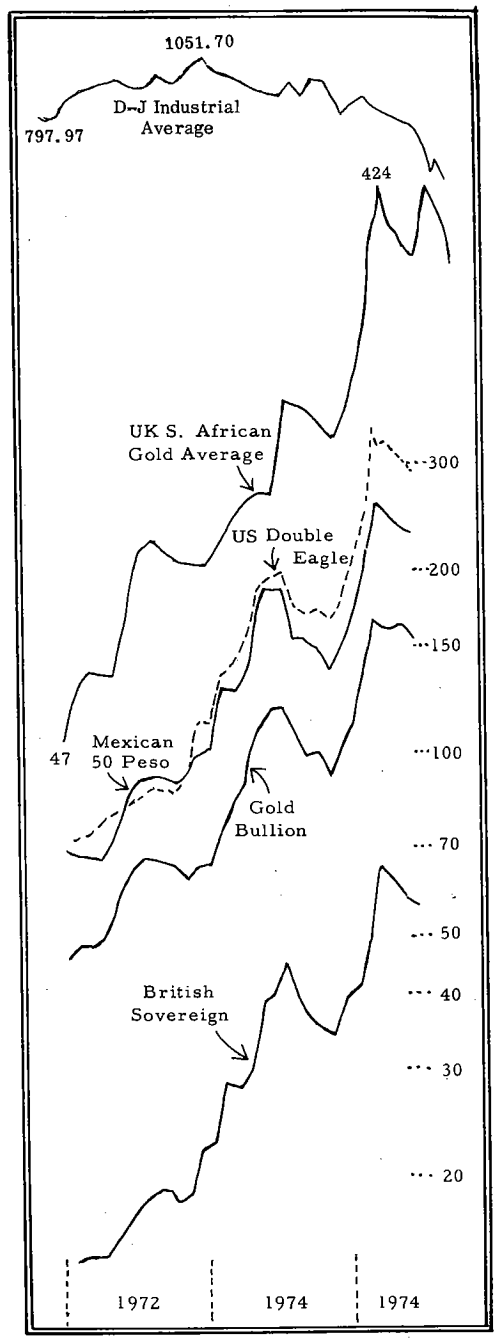
A proposal to reduce the $202 million annual budget is expected to be submitted to trustees at their quarterly meeting here this week.

If approved, the cuts would not take effect for at least a year, and all current commitments would be honored, the spokesman said.

He said domestic programs dealing with poverty, minorities and the quality of urban life and international programs dealing with family planning, population growth and the easing of food shortages would continue to have priority, on a reduced scale, if grants were cut.

PRIVATE NON-INSURED PENSION FUNDS

YEAR	PERCENT IN COMMON STOCK
1959	29.8%
1960	32.4
1961	35.6
1962	37.6
1963	38.9
1964	40.0
1965	42.4
1966	43.9
1967	47.1
1968	50.2
1969	52.8
1970	53.3
1971	59.0
1972	63.5
1973	63.7



Maybe I'm writing this for myself and the rest of my friends in the advisory business. It's too late for George to read it, and I believe in trying to help men when they're living rather than waxing poetic over them after they're dead. Personally, I'll try to do the best I can in this business, and that's all I can do. If any of my subscribers are looking for a perfect track record, they're reading the wrong service, because they're not going to find it here.

George Schaefer often wrote that he would like to be right "70% of the time," but I don't believe that. I believe George really drove himself to try to do alot better than that. It couldn't be done. It never will be done in the stock market.

LATE NOTES AND THOUGHTS: (Written Sept. 25, Wednesday, before the market close). The Treasury bill rate sank below 7% two days ago, and the stock market sold off on the "good news" of lower interest rates. I wrote in my last Letter that my charts showed that the bill rate was heading down. If I knew it, others did too. Obviously, the long-awaited big news of lower interest rates had been discounted by Wall Street.

Today Morgan Guarantee announced that it was dropping its prime rate 1/4% to 11 3/4% and the Dow rallied (late tape and all) up 13 points, then started sliding. I ask myself, if the drop in T-bill rates was discounted and the market sold off on the supposed news then, why should Morgan Guarantee's dropping the prime rate serve to boom the market now? We'll see after today's close (which I'll comment about later).

Yesterday, the cumulative most-active stock index dropped to a new low for the bear market, and I take this as a sign of continuing distribution (see Letter 601, page 2). I cannot repeat the construction of each index each time I mention them here in the Letters, so once again I ask readers to (1) save back Letters, and (2) take a half minute off each day to chart the figures for the Dow, the PTI and the A-D ratio as shown this issue at the end of page 8. As of September 25, the PTI was within 5 points of a new bear market low. This is very poor action, and means that the market must rally from here to ward off another bearish signal on the PTI (bearish PTI signals over the past few years have proved most accurate in forecasting new lows for the market).

On September 24 both Australia and New Zealand (see clip) devalued their currencies. I predict that Britain will devalue next in the coming parade of "jump the gun on your neighbor" as the paper currencies of the world sink slowly but surely out of sight on the downside. This, of course, is the basic reason for holding gold, the fact that when the going gets rough (as it now is), and the export business gets dirty (as it now is), why you just devalue your currency and make your goods cheaper for the chaps out there. Welcome to the club, Australia and New Zealand, "You too can become a paper pirate."

AUSTRALIA DEVALUES 12%

CANBERRA, Australia (AP) — The Australian dollar was devalued by 12 per cent today and no longer will be tied to the U.S. dollar, Prime Minister Gough Whitlam announced.

He said that initially under the new arrangement the Australian dollar would be worth $1.3090 U.S. compared with $1.4870 before the devaluation. In the future, the exchange rate for the Australian dollar will be determined daily by changes in an average of foreign currency values weighted in accordance with trading significance to Australia, he said.

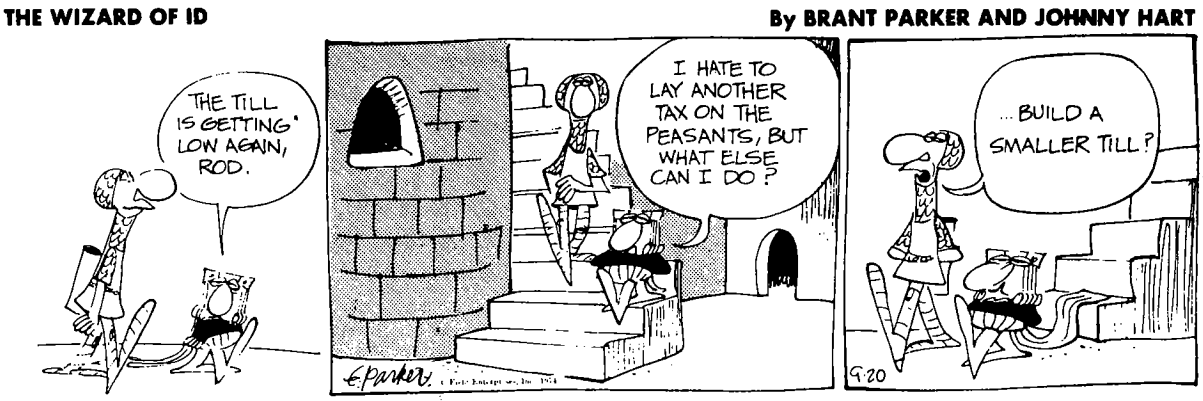
Soon after the Australian action, neighboring New Zealand announced a 9 per cent devaluation of its dollar.

QUESTION: Are my stock certificates and T-bills safe in a bank? ANSWER: I have suggested that subscribers take possession of their stock certificates (in their own name) and place their certificates in a lock-box at the bank (this obviously means that you are not on margin). As far as T-bills are concerned, these should be kept in a "safekeeping" arrangement with your bank. The bills are then in your account, and they are not considered part of bank assets.

QUESTION: Do you advocate keeping gold coins or other securities in a foreign country? ANSWER: I must say that this idea has never thrilled me, maybe it's just my intuition. I feel that if this nation gets to the point where your safety lies in a foreign bank account, (1) we've had it here, as far as the present system is concerned, and (2) you would have to decide whether to stay here or leave for the foreign country. In other words, the money there would only do you good if you left the US, and I personally do not feel that I want to do that. In a recent interview, Paul Erdman (who knows Switzerland and its banks pretty well — he wrote "The Billion Dollar Sure Thing," he did banking in Switzerland, and he spent time in a Swiss prison) wrote: "I suspect a lot of people don't know what they're doing over there. Banks here have been taking very substantial risks in the past five years in overseas markets." Erdman also called "baloney" the belief that Swiss banks will survive when others collapse. "They're vulnerable, very vulnerable," he said. So I'm staying here. If that means working for Arab-American Cartel, International, Ltd. in 1984, so be it. Maybe they'll have a small branch in La Jolla.

WIND-UP: Chase Manhattan joined Morgan Guarantee in the "1/4% for the prime rate" club, and lo, the Dow slipped off to close at a minus 4 for the day. As stated previously, I feel that the Dow will lead the market from here on, whereas the advance-decline ratio or the non-Dow stocks have been leading the way down ever since this bear market started in 1966.

Except for a change in the percentage of gold items to be held, our policy remains the same. Let the Ford Foundation fight the bear market, we'll stay out, with our non-gold investments confined to Treasury bills held in a safekeeping account.


THE WIZARD OF ID
By BRANT PARKER AND JOHNNY HART
THE TILL IS GETTING LOW AGAIN, ROD.
I HATE TO LAY ANOTHER TAX ON THE PEASANTS, BUT WHAT ELSE CAN I DO?
...BUILD A SMALLER TILL?
9-20

Sept. 13, DJIA 627.19; PTI 220; A-D ratio -34.57
Sept. 20, DJIA 670.76; PTI 234; A-D ratio -33.21